

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SWF-02 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02

SP-03 STR-08 TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01 SS-20

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TO SECSTATE WASHDC 6986

INFO AMEMBASSY BONN

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AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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AMEMBASSY THE HAGUE

USMISSION GENEVA

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PASS TREASURY, FRB, CEA

E. O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC MONETARY COMMITTEE MEETING MAY 29 IN PREPARATION
FOR EC COUNCIL (FINANCE) MEETING JUNE 6

1. SUMMARY: AT ITS MAY 29 MEETING IN PREPARATION FOR
THE EC COUNCIL (FINANCE) SESSION JUNE 6, THE EC
MONETARY COMMITTEE INCLINED TO THE VIEW THAT THE GOLD
ISSUE SHOULD NOT BE PRESSED AT THE FORTHCOMING C-20
MINISTERIAL MEETING IN WASHINGTON. IT ALSO JUDGED
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PREMATURE A COMMISSION PROPOSAL ON CONCERTED FLOATING
OF EC CURRENCIES. THE FRG REPRESENTATIVE INDICATED

HIS GOVERNMENT'S WILLINGNESS TO SUPPORT OTHER MEMBER STATES WITH CREDITS ON CONDITION THEY DRAW UP AN EFFECTIVE STABILIZATION PROGRAMS. THE COMMITTEE DECIDED TO STUDY FURTHER THE PROBLEM OF RECYCLING BEFORE MAKING ANY PROPOSALS TO THE COUNCIL. THOUGH OUR SOURCES DO NOT EXPECT THE JUNE 6 COUNCIL TO TAKE ANY MAJOR DECISION, THE EMPHASIZE THAT THE GENERAL ORIENTATION OF THE MEETING COULD BE AFFECTED BY THE GISCARD-SCHMIDT TALKS ON MAY 31. END SUMMARY.

2. THE MONETARY COMMITTEE MET IN BRUSSELS MAY 29 IN ORDER TO PREPARE FOR THE EC COUNCIL (FINANCE) MEETING IN LUXEMBOURG JUNE 6. ACCORDING TO EC COMMISSION AND OTHER SOURCES, THE COMMITTEE'S VIEW ON GOLD WAS THAT THE NINE SHOULD NOT RAISE THE ISSUE AT THE C-WP MINISTERIAL MEETING IN WASHINGTON. THE COMMITTEE BELIEVED THE US WAS NOT READY TO GIVE A SUBSTANTIVE ANSWER BY THAT TIME AND THAT THE DEVELOPING COUNTRIES WOULD PROBABLY INSIST ON UNACCEPTABLE CONDITIONS IN CONNECTION WITH ANY ACTION ON GOLD. SINCE NO ACTION AT THE C-20 WAS LIKELY, THEREFORE, IT WOULD BE BETTER NOT TO RAISE THE ISSUE AT ALL AND THUS GIVE THE US MORE TIME TO RESPOND TO THE ZEIST PROPOSALS. OUR SOURCES BELIEVE THE FINANCE MINISTERS' DISCUSSION OF GOLD WILL THUS BE LIMITED TO CONSIDERATION OF TACTICS AND TIMING.

3. THE FRG REPRESENTATIVE INDICATED HIS GOVERNMENT'S WILLINGNESS TO GRANT CREDITS TO MEMBER STATES IN BALANCE-OF-PAYMENTS DIFFICULTIES PROVIDED THESE COUNTRIES UNDERTAKE SERIOUS AND EFFECTIVE STABILIZATION PROGRAMS. IT WAS NOT CLEAR EXACTLY UNDER WHAT CONDITIONS THE FRG WOULD BE WILLING TO GRANT SUCH CREDITS, BUT WE UNDERSTAND THIS QUESTION WILL BE DISCUSSED BY THE FINANCE MINISTERS IN A HIGHLY RESTRICTED SESSION AT WHICH EACH MEMBER STATE WILL BE EXPECTED TO GIVE A FRANK APPRAISAL OF ITS ECONOMIC SITUATION.

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4. THE COMMITTEE ALSO DISCUSSED AN INFORMAL COMMISSION SUGGESTION ORIGINALLY PRESENTED AT A MONETARY COMMITTEE MEETING APRIL 4-5 FOR A JOINT FLOAT OF COMMUNITY CURRENCIES (REPORTED IN EC BRUSSELS 2198). THE IDEA IS BASED ON THE OLD SNAKE AND SETS FORTH A NUMBER OF ALTERNATIVE APPROACHES INCLUDING CHANGES IN THE SYSTEM OF INTRA-COMMUNITY SETTLEMENTS AND IN THE APPROPRIATION AMONG THE MEMBER STATES OF THE COSTS OF INTERVENTIONS. IT WOULD ALSO ENVISAGE WIDER AND DIFFERING MARGINS FOR EC CURRENCIES AND INCORPORATION

OF GOLD INTO THE EC SETTLEMENT SYSTEM. THE COMMITTEE REPORTEDLY CONCLUDED AFTER A BRIEF DISCUSSION THAT CONCERTED FLOATING AT THIS TIME WAS PREMATURE-- THE COMMUNITY'S MOST TASK BEING THE STABILIZATION OF THE EXONOMIES OF THE MEBER STATES.

5. THE COMMITTEE ALSO DISCUSSED THE PROBLEM OF RECYCLING. IT RECOGNIZED A NUMBER OF PROBLEMS IN THIS AREA AND NOTED THAT THE CAPITAL MARKETS, THOUGH THEY HAD FUNCTIONED WELL INITIALLY, COULD NOT BE COUNTED UPON TO RESOLVE THESE PROBLEMS. THERE WAS GENERAL AGREEMENT THAT THE PROBLEM WAS INTERNATIONAL IN CHARACTER AND THAT THE COMMITTEE SHOULD STUDY THE ISSUE FURTHER BEFORE MAKING ANY PROPOSALS TO THE COUNCIL.

6. ACCORDING TO OUR SOURCES, THE COMMITTEE ALSO DEALT WITH THE VARIOUS ISSUES OF INTERIM MONETARY REFORM. THESE WILL BE REVIEWED AGAIN BY THE COUNCIL. THERE WAS APPARENTLY DISAGREEMENT WITHIN THE COMMITTEE ON AMENDMENTS TO THE IMF ARTICLES OF AGREEMENT, WITH MOST OF THE PROPOSED AMENDMENTS BEING FAVORED BY THE UK AND THE FRG BUT OPPOSED BY THE OTHER MEMBER STATES.

7. MOST OF OUR CONTACTS DO NOT EXPECT THE FINANCE MINISTERS TO TAKE ANY IMPORTANT DECISIONS--THOUGH IT IS RECOGNIZE THAT THE MEETING IS LIKELY TO BE INFLUENCED BY WHATEVER MAY EMERGE FROM THE TALKS BETWEEN GISCARD AND SCHMDT.

8. IN A RELATED DEVELOPMENT, WE UNDERSTAND WITTEVEEN
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WAS IN BRUSSELS MAY 30 TO DISCUSS NEW IMF PROPOSALS FOR THE GRANTING OF IMF CREDITS IN EXCHANGE FOR GOLD PLEDGED AS COLLATERAL. WE DO NOT KNOW THE OUTCOME OF THESE DISCUSSIONS BUT GATHR THE FINANCE MINISTERS MAY DISCUSS THE PROPOSALS ON JUNE 6.
MYERSON

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